

## Contribution rates scheduled to increase July 2004

Poor investment markets mean PERSI rates will gradually return to 1997 levels

Since August 2000, the US has experienced the worst equity market since the 1930s, both in duration and in depth. The previous record holder, the 1973-1974 bear market, lasted 21 months, and the S&P500 return dropped 42.6%. This bear market has lasted 27 months so far, and the market has dropped some 44.9%.

Such abysmal markets have, naturally, had a negative effect on PERSI's funding levels. In Fiscal Year 2002 (ended June 30, 2002), PERSI had a -7.1% return. The year before, we had a -6.1% return. Just three years ago, PERSI was 116% funded and was able to provide you with gain sharing. As of June 30 2002, PERSI was 84.9% funded.

Because of this, after months of deliberation, the PERSI Board voted at their November 2002 meeting to gradually increase member and employer contribution rates back to 1997 levels.

Effective July 1, 2004, the rate employers contribute to PERSI will increase to 10.39%, up from 9.77% (10.63% for police/fire employers, up from 10.01%). Employee rates will increase from 5.86% to 6.23% of pay (Police/PERSI Firefighters

will pay 7.65%, up from 7.21%). All the rates will increase again July 1, 2005 and 2006 (see chart on back page).

The Board decided to delay the effective date of the rate increases to July 2004 for several reasons, one of which is tight employer budgets. We realize that such hard economic times are difficult for public employers, and also that many public entities have their fiscal year budgets set far in advance.

**But, even when all of these increases are in place, employer and employee contribution rates will be the same as they were in 1997.** Until 10-31-1997, the rates were 6.97% for general members (8.53% for police/firefighters), 11.61% for employers (11.85% for police/fire employers). November 1, 1998, PERSI lowered contribution rates because investments were doing so well.

Retirees will also feel the effects of these poor investment markets. For the first time in over a decade, retirees will not receive a discretionary Cost of Living

Although PERSI had negative returns for FY02, members will receive a positive regular interest rate

### Interest Paid to Members

Effective January 1, 2003, the regular interest rate members receive on their PERSI Base Plan account will be 1.9% for the year.

As you may recall, in 2000 PERSI changed the Regular Interest Rate credited to member accounts to an amount equal to PERSI's net investment return rate. The rate for each calendar year is based on the annual net rate of return at the end of the previous fiscal year (June 30).

Although PERSI realized a return of -7.1% for fiscal year 2002, the interest rate for members will be the average of quarter-ending rates for 90-day Treasury Bills for the year. This means that even though PERSI had negative returns last year, members will be paid a respectable interest rate.

### Interest Paid for Buybacks

The interest charged to members who are making repayments to the PERSI Base Plan is the 3-year average of the Prime Rate plus one-percent. (Determined as of June 30 the previous year to be

Continued - see "Contribution rates" on back page

Continued - see "2003 interest" on back page

## 2003 interest

continued from front page

effective January 1 each year.) For calendar year 2003, that rate is 8%. (Any interest paid by a member goes into their own account, not to PERSI.)

If a member was already repaying amounts owed to PERSI before March 1, 2000, the interest rate on those amounts will remain at 4.75% for the term of the repayment. If they are currently making payments, and want to begin additional payments to pay off the total faster, they may do so with a locked interest rate of 4.75%, as long as the original payment started by February 29, 2000. If they initiated an original repayment between March 1 and

December 31, 2000, they may make additional repayments at the interest rate for that period: 9.25%

The lower rate will continue as long as payments made for the year are sufficient to at least pay accrued interest. Payments that do not meet at least the annual interest accruals will lose the locked in rate and will be raised to prime + one percent. There is no limit on how long they may take to repay as long as they cover the interest. Of course the faster they repay, the less interest they pay. If they terminate work, they may continue to make taxed payments at the locked-in rate.

## Members may contribute more to the Choice Plan 401(k) in 2003

Employees may increase their contributions to the PERSI Choice Plan 401(k) in 2003.

The 2003 contribution limit is \$12,000 (or, if they are least age 50 during the year, \$14,000).

They may contribute any percent of pay until they reach the limit.

Employees should contact your payroll office to complete a new Salary Reduction Agreement or to change their deferral.

## Contribution rates

continued from front page

Adjustment (COLA) to their retirement benefit. They will receive a mandatory 1% COLA required by law, but will not receive an additional amount that is at the discretion of the Board.

Each year, the COLA may be equal to the Consumer Price Index or 6%, whichever is less. This year the CPI is 1.8%, but retirees will not be receiving the discretionary 0.8% allowed because this would add \$21 million to PERSI's unfunded liability.

It is not unusual for a retirement system's funding level to fluctuate. In the early 1990s we had a similar funding level to what we have now. In the late 1990s and 2000 we were over funded which is why we were able to provide gain sharing.

Having a funding deficit does not mean that PERSI is in bad shape. All public and private pension funds fluctuate between being under and over funded. It is a moving target. There is never a case of

"we're 100% funded so we're done." In 2000 we were 116% funded.

Our drop from being over funded back to being under funded was caused by these few exceptionally bad years of the stock market. History shows us that drops like this are to be expected every so often, and we should gradually come back out of it.

If you have any questions, please contact your local PERSI office.

## Contribution Rate Changes

	Until 10-31-97	Current Rates	7-1-2004	7-1-2005	7-1-2006
General Member Employer Rate	11.61%	9.77%	10.39%	11.00%	11.61%
<b>General Member Employee Rate</b>	<b>6.97</b>	<b>5.86</b>	<b>6.23</b>	<b>6.60</b>	<b>6.97</b>
Police/PERSI Firefighter Employer Rate	11.85	10.01	10.63	11.24	11.85
<b>Police/PERSI Firefighter Employee Rate</b>	<b>8.53</b>	<b>7.21</b>	<b>7.65</b>	<b>8.09</b>	<b>8.53</b>